

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 EUR-12

AGR-10 PA-02 PRS-01 L-03 H-02 SEC-01 /121 W

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R 030932Z MAR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7387

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 3222/1

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF FEB 25-
MAR 3

1. SUMMARY: CONSUMER PRICES RECORDED ANOTHER SHARP RISE
IN FEB, DIMMING GOJ HOPES OF MEETING PLEDGE TO HOLD ANNUAL
CPI INCREASE TO ONE-DIGIT LEVEL BY END OF MARCH. JAN
PRODUCTION FIGURES SHOW HEALTHY INCREASE BUT DECLINE IN
SHIPMENTS THREATENS TO LEAD TO ANOTHER INVENTORY BUILDUP.
CONTINUING STRONG PERFORMANCE OF EXPORTS WAS REVEALED BY
FEB DATA ON EXPORT LETTERS OF CREDIT, CONFIRMING GOJ VIEW
THAT THIS SECTOR IS ONLY CONSISTENT SUPPORT OF CURRENT
SLUGGISH RECOVERY. RECENT BOJ REPORT CASTS SOME DOUBT ON
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RELIABILITY OF M2 AS INDICATOR OF MONEY STOCK IN JAPAN FOR

DETERMINING MONETARY POLICY. END SUMMARY.

2. CONSUMER PRICES IN TOKYO RECORDED ANOTHER SHARP 0.8 PERCENT INCREASE IN FEB. THIS MAY SHATTER GOJ PLEDGE TO HOLD ANNUAL PRICE RISE TO ONE-DIGIT LEVEL BY END OF MAR 1976. AS IN PRIOR MONTH, PRICE HIKES FOR FRUITS AND VEGETABLES (UP 16.1 PERCENT AND 0.8 PERCENT FROM JAN RESPECTIVELY) WERE MAIN CONTRIBUTORS TO FEB INCREASE IN TOKYO CPI (JEI 422). IN ORDER TO MEET GOJ "ONE-DIGIT" PLEDGE, MARCH INCREASE IN CPI WOULD HAVE TO BE HELD TO 0.3 PERCENT OR LESS. INDEX DID RECORD DECLINES IN NOV AND DEC 1975 AS FRUIT AND VEGETABLE PRICES RECOVERED FROM AN EARLIER UPSWING. HOWEVER, EPA OFFICIALS INDICATED THAT JAPAN'S INTER DROUGHT HAD PROBABLY ENDED TOO LATE TO FAVORABLY AFFECT MARCH INDEX. GOJ DOES HAVE ONE LAST CARD TO PLAY, SINCE AGRICULTURE MINISTRY WILL CONDUCT SPECIAL SALES OF IMPORTED FOODS TO BE HELD IN MAJOR CITIES DURING PERIOD OF MARCH CPI SURVEY DATES. DEPUTY PM FUKUDA TOLD PRESS THIS WEEK THAT GOJ COULD MEET "ONE-DIGIT" PLEDGE ON BASIS OF NATIONAL CPI. HOWEVER, EPA OFFICIALS HAVE PRIVATELY INDICATED THAT KEEPING RISE OF EVEN NATIONAL INDEX TO ONE DIGIT IS NO SURE THING.

INDEX (1970-100, NSA) PCT CH. FROM PRIOR MO.

DEC	176.1	- 0.2
JAN	179.8	2.1
FEB	181.5	0.8

3. INDUSTRIAL PRODUCTION ROSE 1.4 PERCENT IN JAN ON SEASONALLY ADJUSTED BASIS WHILE PRODUCERS' SHIPMENTS DECLINED 0.3 PERCENT. FAILURE OF SHIPMENTS TO CONTINUE ADVANCE RECORDED IN PRIOR MONTH HAS LED TO SOME CONCERN IN GOJ THAT EXPERIENCE OF LAST SPRING, WHEN RISE IN PRODUCTION OUTPACED INCREASES IN SHIPMENTS, MAY BE REPEATED. INDUSTRIAL PRODUCTION IN MINING AND MANUFACTURING INDUSTRIES (JEI 212) HAS INCREASED ONLY 1.2 PERCENT IN PAST SIX MONTHS, AND PRODUCERS' SHIPMENTS OF FINISHED GOODS (JEI 239) ROSE ONLY 0.1 PERCENT. DETAILS OF JAN PRODUCTION, SHIPMENTS, AND INVENTORY INDEXES REPORTED TOKYO 2867. PRODUCTION, SHIPMENTS, AND INVENTORY TO SHIPMENTS RATIO (INDEX, 1970-100); PCT. CH FROM PRIOR MONTH UNCLASSIFIED

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IN PAREN)

MIN. AND MFG. PRODUCERS' INV. TO SHIPMENTS

PRODUCTION SHIPMENTS RATIO

NOV	111.8 (-1.7)	115.7 (-2.4)	141.1 (2.6)
DEC	112.7 (0.8)	118.0 (2.0)	139.2 (-1.3)
JAN	114.3 (1.4)	117.6 (-0.3)	139.1 (-0.1)

4. JAPAN'S L/C EXPORTS CONTINUED TO SHOW STRONG PERFORMANCE

IN FEB. THE 22 PERCENT INCREASE FROM FEB 75 LEVEL WAS LARGEST YEAR-TO-YEAR RISE OF PAST 12 MONTHS. L/C DATA FOR SHIPMENTS TO U.S. AND ASIA (INCLUDING COMMUNIST CHINA) JUMPED MORE THAN 40 PERCENT FROM YEAR EARLIER LEVELS WHILE DATA FOR SHIPMENTS TO EUROPE AND OTHER REGIONS SHOWED NO YEAR-TO-YEAR INCREASE. BY COMMODITY, EXPORTS OF AUTOS, ELECTRIC APPLIANCES AND TEXTILES CONTINUED VEFY STRONG AND CHEMICAL EXPORTS (PRINCIPALLY FERTILIZERS) FAINALLY RECOVERED TO LEVEL OF ONE YEAR EARLIER. IRON AND STEEL EXPORTS, HOWEVER, REMAINED SLIGHTLY BELOW LEVEL OF ONE YEAR AGO. L/C DATA ARE BASED ON LETTERS OF CREDIT RECEIVED BY FOREIGN EXCHANGE BANKS IN JAPAN DURING MONTH AND ARE GENERALLY CONSIDERED TO LEAD MOVEMENTS OF CUSTOMS BASIS TRADE BY ONE TO TWO MONTHS. DATA EXCUDE SHIP EXPORTS BUT COVER ROUGHLY 70 PERCENT OF TOTAL TRADE INCLUDED IN CUSTOMS EXPORT STATISTICS (TOKYO 2382, PARA 7). RECENTLY RELEASED CUSTOMS TRADE DATA COVERING FIRST 20 DAYS OF FEB SHOW 4.6 PERCENT INCREASE IN EXPORTS AND 7.9 PERCENT GROWTH OF IMPORTS ON YEAR-OVER-YEAR COMPARISON. MOF OFFICIALS PREDICT FEB CUSTOMS TRADE (BOTH EXPORTS AND IMPORTS) WILL SHOW FIRST ANNUAL INCREASES IN MORE THAN 12 MONTHS. OFFICIALS SAID RECENT DATA CONFIRM STEADY RECOVERY OF JAPAN'S EXPORTS. MITI MINISTER KOMOTO STRESSED HIGH RATE OF CONTRACT AWARDS ON FUTURE PLANT EXPORTS IN EXPLAINING HIS CONVICTION THAT RECENT STRONG PERFORMANCE OF JAPAN'S EXPORTS WILL PLAY LEADING ROLE IN ECONOMIC RECOVERY HERE.

L/C EXPORTS

PERCENT CHANGE

FROM A YEAR AGO FROM PRIOR MO. (S.A)

1975-DEC	1.0	2.1
1976-JAN	17.5	7.4
FEB	22.2	2.3

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SOURCE: MOF AND BOJ

5. OFFICIAL RESERVERS ROSE \$798 MIL IN FEB, THE SECOND LARGEST MONTHLY INCREASE SINCE GENERALIZED FLOATING BEGAN FEB 1973, TO REACH \$13,951 MIL. NEWS REPORTS ATTRIBUTED THIS TO BOJ MARKET PURCHASES OF MORE THAN \$600 MIL IN ITS ATTEMPT TO PREVENT SUBSTANTIAL APPRECIATION OF THE YEN. OFFICIALS CITED SIMILAR MOVEMENT OUT OF DOLLARS INTO STRONG CURRENCIES SUCH AS DM DURING A PERIOD OF UNSETTLED CONDITIONS IN EUROPEAN FOREIGN EXCHANGE MARKETS.

6. MOVEMENTS IN THE BROAD MONETARY AGGREGATES THROUGH DEC, THE LATEST MONTH FOR WHICH DATA IS AVAILABLE, WERE INCLUDED IN THE REPORT FOR WEEK OF FEB 10-18 (TOKYO 2382).

FURTHER ELABORATION ON INCREASES IN M2 MONEY SUPPLY IS PROVIDED IN THE TABLE BELOW.

(A) THE TABLE INDICATES HOW CHANGES IN VARIOUS TYPES OF BANKING SECTOR'S ASSETS CONTRIBUTED TO INCREASE IN M2 LIABILITIES. THE DATA ARE (A) BASED ON BANK OF JAPAN "MONETARY SURVEY" STATISTICS COMPILED FOR THE IMF BY SHOESMITH

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-10 PA-02 PRS-01 L-03 H-02 SEC-01 /121 W

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R 030932Z MAR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7388

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

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AMEMBASSY PARIS

AMEMBASSY ROME

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CONSOLIDATING BANKS AND MONETARY AUTHORITIES AND PUBLISHED IN IFS AND BY BOJ, (B) ALMOST IDENTICAL WITH BANK OF JAPAN TABLES ON "MONEY SUPPLY AND RELATED DATA" PUBLISHED IN THE BANK'S "ECONOMIC STATISTICS MONTHLY," (C) NOT SEASONALLY ADJUSTED. THE TABLE BELOW INDICATES THE MONTHLY CHANGES IN M2 ON SEASONALLY ADJUSTED BASIS, SO AS TO COMPARE WITH EMBASSY'S PREVIOUS REPORTING, AND ON UNADJUSTED BASIS TO SHOW HOW VARIOUS FACTORS CONTRIBUTED TO M2 CHANGES. COAIMS TO THE PRIVATE SECTOR ARE THE MOST IMPORTANT FACTOR FOR INCREASES IN M2. IN NOV AND DEC LARGE GOJ BUDGET DEFICITS WERE MONETIZED BY THE BANKING

SECTOR AND CONTRIBUTED TO SHARP INCREASES IN M2. NET FOREIGN ASSETS DECLINED IN RECENT MONTHS BECAUSE OF DEFICITS IN OVERALL BALANCE OF PAYMENTS AND THEREFORE WAS A SMALL NEGATIVE FACTOR IN THE MONEY SUPPLY GROWTH DURING THE LAST HALF OF 1975.

FACTORS CONTRIBUTING TO MONEY SUPPLY GROWTH

1975	OCT	NOV	DEC
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(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E. TIMES 12)

M2 S.A.	16.6	26.3	6.5
M2 N.S.A.	7.7	34.4	47.4

FACTORS CONTRIBUTING TO CHANGES IN M2 N.S.A.

CREDITS TO:

PRIVATE SECTOR	11.1	17.6	27.8
NATL. GOVT.	5.0	20.6	12.4
LOCAL GOVTS.	0.0	0.9	2.6
FOREIGN ASSETS, NET	- 2.5	- 1.4	1.8
OTHER (SEE NOTE)	- 5.9	- 3.3	2.8
TOTAL ALL FACTORS	7.7	34.4	47.4

NOTE: "OTHER" FACTOR REPRESENTS "OTHER LIABILITIES, NET" IN MONETARY SURVEY TABLES, WHICH BOJ EXPERT SAYS CONSISTS PRIMARILY OF CHANGES IN PROFITS, RATHER THAN DEPOSIT LIABILITIES; IT OF COURSE CONTRIBUTES TO CHANGES IN ASSETS.

(B) TRADITIONAL FOCUS OF BOJ MONETARY POLICY HAS BEEN "WINDOW GUIDANCE," THAT IS, STRICT LIMITS ON QUARTERLY INCREASES IN BANK CREDIT TO THE PRIVATE SECTOR (SEE REPORT WEEK OF JAN 14-21, TOKYO 930, PARA 4). HOWEVER, IMPACT OF OTHER FACTORS AFFECTING MONEY SUPPLY GROWTH AND THE NATION'S LIQUIDITY, E.G. PAST BALANCE OF PAYMENTS SURPLUSES, HAVE MODIFIED BOJ VIEWS. A RECENT BOJ REPORT (SPECIAL PAPER NUMBER 60, OCT 75, ECONOMIC RESEARCH DEPT) CONCLUDES THAT "WHEN THE SITUATION IS SUCH THAT MONEY SUPPLY INCREASES AT AN ALARMING RATE THROUGH CHANNELS OUTSIDE OF BANK LENDING, IT BECOMES NECESSARY TO APPLY APPROPRIATE MEANS OF ADJUSTMENT ON EACH OF THESE CREDIT CHANNELS." STUDY FINDS A CLOSE CONNECTION BETWEEN MONEY SUPPLY IN JAPAN, PARTICULARLY TRENDS IN M2, AND PRICE TRENDS. HOWEVER, IN THE TRANSMISSION MECHANISM FROM THE STOCK OF M2 TO PRICES, TO GNP AND OTHER ECONOMIC VARIABLES, THERE ARE MANY FACTORS NOT DIRECTLY RELATED TO MONETARY POLICY, AMONG THEM PSYCHOLOGICAL FACTORS. THE BANK HAS FOUND THESE FACTORS DIFFICULT TO ESTIMATE OR TO INCORPORATE IN ECONOMETRIC ANALYSIS. MOREOVER, IRREGULAR FLUCTUATIONS IN SUPPLY OF CREDIT OTHER THAN BANK LENDING TO THE PRIVATE SECTOR ARE NOT EASY TO CONTROL. THEREFORE, THE REPORT CONCLUDES, "PRIOR

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ESTABLISHMENT OF A SPECIFIC M2 GROWTH TARGET AND THE ATTEMPT TO REALIZE THIS TARGET MECHANICALLY IS NOT PRUDENT."

7. GOJ BOND YIELDS ROSE SLIGHTLY IN FEB AFTER RECORDING SHARP DECLINES IN PRIOR MONTH. HOWEVER, YIELDS REMAINED BELOW 9 PERCENT LEVEL. GOJ BOND YIELD ROSE BY 0.005 PERCENTAGE POINT DURING FEB IN CONTRAST TO LARGE 0.4 PERCENTAGE POINT DECLINE IN PRIOR MONTH AND STOOD AT 8.612 PERCENT PER ANNUM AT END OF FEB. CORPORATE BOND YIELD INCREASED MORE SHARPLY THAN GOJ BOND YIELD, RISING 0.05 PERCENTAGE POINT TO 8.740 PERCENT PER ANNUM IN FEB AFTER RECORDING LARGE 0.7 PERCENTAGE POINT DROP DURING PREVIOUS MONTH. TELEPHONE AND TELEGRAPH BONDS, ON THE OTHER HAND, CONTINUED TO DECLINE TO 8.695 PERCENT PER ANNUM THOUGH RATE OF DECLINE SLOWED DOWN SUBSTANTIALLY FROM 0.6 PERCENTAGE POINT OF JAN TO 0.1 PERCENTAGE POINT IN FEB.

BOND YIELDS, YIELDS TO MATURITY

(YIELDS IN PERCENT; AT MONTH-END)

	GOJ BONDS	TELEPHONE AND TELEGRAPH BONDS	CORPORATE BONDS
1975-DEC	9.024	9.367	9.398
1976-JAN	8.607	8.800	8.690
FEB	8.612	8.695	8.740

8. AVERAGE PROPENSITY TO SAVE WAS 23.4 PERCENT IN DEC, THE SAME LEVEL AS IN THE PREVIOUS MONTH. AVERAGE PROPENSITY TO SAVE (JEI 363) REMAINED HIGH THROUGHOUT 1975. HOWEVER, 4TH QUARTER AVERAGE OF 23.0 PERCENT REPRESENTS A SLIGHT DECLINE FROM 23.5 TO 24.3 PERCENT AVERAGE SAVINGS PROPENSITIES REGISTERED IN PRIOR THREE QUARTERS. THERE ARE NO INDICATIONS THAT APS WILL RETURN TO PRE-RECESSION LEVELS OF 20-22 PERCENT IN NEAR FUTURE.

(S.A., PERCENT OF DISPOSABLE INCOME)

OCT 22.1

NOV 23.4

DEC 23.4

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRIAL PRODUCTION, ECONOMIC REPORTS, TRADE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 03 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TOKYO03222
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760081-0874
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760397/aaaadibq.tel
Line Count: 319
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUN 2004 by fisherem>; APPROVED <14 DEC 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF FEB 25- MAR 3
TAGS: EFIN, JA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006